

California State
Board of Equalization

ANNUAL REPORT FY 2012-13

SUPPORTING OUR COMMUNITIES

Funding a Better Quality of Life



LETTER FROM THE EXECUTIVE DIRECTOR



On behalf of our Executive Team and dedicated employees, I am pleased to present this Annual Report of the services and accomplishments of the [Board of Equalization \(BOE\)](#) for the fiscal year which ended June 30, 2013.

The BOE has a full slate of programs to carry out its constitutional and statutory mandates of administering various taxes and fees and serving as an appellate body for property, business, and income tax assessments.

Making compliance with California's tax laws as easy as possible is instrumental to our effectively collecting tax dollars. During this reporting period the BOE generated \$56 billion, representing more than 30 percent of all state revenue for the fiscal year, and we did so efficiently. Our total cost for all operations was \$517 million (only 92 cents for every \$100 of revenue collected).

We are proud to serve the great State of California and to continue to do our part in funding a better quality of life.

Yours in public service,

A handwritten signature in black ink that reads "Cynthia Bridges". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Cynthia Bridges
Executive Director

BOARD MEMBERS



John Chiang
State Controller

Betty T. Yee
First District

Jerome E. Horton
Chairman
Fourth District

Michelle Steel
Vice Chair
Third District

Sen. George Runner (RET.)
Second District

The BOE is unique, holding the distinction of being the only elected tax commission in the United States.

Composed of five Board Members, the BOE administers more than 30 tax and fee programs that generate revenue essential to our state. Additionally, the Board hears appeals from various business tax assessments, Franchise Tax Board actions, and public utility assessments. The BOE serves a significant role in the assessment and administration of property taxes by issuing rules and regulations, establishing the values for tax purposes of railroads and specified privately-held public utilities, and overseeing the assessment practices of the state's 58 county assessors.

Public Board meetings offer taxpayers and other interested parties the opportunity to participate in the formulation of rules and regulations adopted by the Board and to interact with the Members as they carry out their official duties. Meetings are held throughout the year. The Board meets monthly.

BUILDING OUR FUTURE

Our customers want access to information and services anytime and anywhere. In order to meet their needs, we understand we must continue to innovate and adapt to our rapidly changing world.

During the next twelve months, we will continue to implement new tax legislation and focus on improved customer service, as we enhance our suite of online services for tax and feepayers.

We will provide more taxpayer assistance through seminars and workshops to encourage voluntary compliance. BOE policies and procedures will also be reviewed and, when appropriate, revised in an effort to streamline compliance.

Additionally, the BOE will apply strong organizational development practices to improve productivity in all areas, enhance accountability and transparency, and prepare our workforce for tomorrow's challenges.

The BOE's business operations will also be challenged by the agency's participation in Wave 1 of the State's FI\$Cal project (the business transformation project for state government in the areas of budgeting, accounting, procurement, and cash management). The BOE will also continue the pre-implementation phase of its own top to bottom technology modernization effort, [Centralized Revenue Opportunity System](#).

Above all, we look forward to ensuring our tax and feepayers always receive the professional assistance they deserve and information they need to be successful.



STRENGTHENING CALIFORNIA TOGETHER

We are committed to strengthening California communities. We team up with businesses, large and small, to improve our roads and our schools, to invest in law enforcement and our environment, and to provide access to other critical services. The BOE generated \$56 billion in FY 2012-13, revenue that is vital to maintaining the economic health of our state.

We accomplish this through the following activities:

- Interpreting and applying tax and fee laws correctly, consistently, and fairly.
- Collecting and allocating revenues as required by law.
- Assessing and allocating property values as required by law.
- Educating and assisting tax and feepayers to comply voluntarily, while minimizing their compliance burden.
- Providing high-quality customer service, using well-qualified staff and state of the art technology.
- Achieving program objectives at the lowest possible cost.

So, remember, as you drive down our roads, enjoy our parks, or seek help from law enforcement, your experiences are possible because of the revenue the BOE generates from your contributions.

HIGHLIGHTING OUR ACCOMPLISHMENTS

The BOE is proud of achievements that occurred in FY 2012-13. What follows is a summary of these accomplishments.

Expanded Online Services

During FY 2012-13, we expanded our online services by implementing the [relief request program](#) which enables taxpayers to electronically submit requests for Extension of Time to file tax or fee returns, requests for relief from Penalty, Interest, and Collection Cost Recovery Fee, and assertions of *Declarations of Timely Mailing* of tax or fee returns. We enhanced the return filing system to include the cigarette manufacturer's returns and cigarette distributor's reports.

To accommodate the newly created [Lumber Products Assessment](#), we also added a new element to the current sales and use tax return allowing lumber retailers to report a one percent assessment on the retail sales of lumber. Retailers can claim a reimbursement for one-time start-up costs on their returns for this program. These new capabilities expand existing online services for registering for a permit, license, or an account with the BOE, filing a return, making a payment, and verifying permits.

Did you know the BOE contributed more than 30 percent of all state revenue for the fiscal year?

Industry Guides Debut on Website

New [Industry Tax Guides](#) and topics covering [restaurants](#), lumber products assessment, film/television credits, and [American Indian Tribal issues](#) debuted on the BOE website in October 2012. These web pages provide a one-stop-shop for business owners and operators looking for information on key tax issues relevant to their business.

Use Tax Outreach

Use tax promotes fairness between in-state retailers who are required to report and pay tax and some out-of-state retailers who are not. This tax, just like sales tax, goes to fund critical services such as public safety, transportation, housing, and natural resources.

The BOE continues its commitment to inform the public about use tax and its importance. In FY 2012-13, higher income Californians received correspondence from the BOE that provided information about the application of use tax to certain purchases. This letter campaign generated more than \$3 million in use tax payments.

Financial Institutions Record Match Implemented

The BOE implemented the Financial Institutions Record Match (FIRM) program in March 2013. FIRM provides a joint-agency master record file of delinquent account information to various banking institutions on behalf of the BOE, Franchise Tax Board (**FTB**), and Employment Development Department (**EDD**). The three agencies review the data to identify matches to their account holders. FIRM accelerates collection efforts, and reduces state government and private sector costs.

Geospatial Information Systems

The BOE, in collaboration with the California Technology Agency, developed an application that visually displays the **Top 500 Delinquencies in Sales and Use Tax** on a state map. The interactive application shows names, location, and amount of tax owed. Since the inception of the Top 500 program, BOE has collected more than \$9 million.



CONTRIBUTING TO OUR QUALITY OF LIFE



The BOE generated more than 30 percent of the money that benefits our communities by helping provide funding for hundreds of state and local government programs and services, including:

- Natural Resources Management
- Social Welfare Programs
- Hospital and Health Care Services
- Transportation and Housing
- Public Safety Programs





REINVESTING IN OUR COMMUNITIES

The BOE generated more than \$56 billion for California, an increase of 6.8 percent from \$52.5 billion in FY 2011-12.



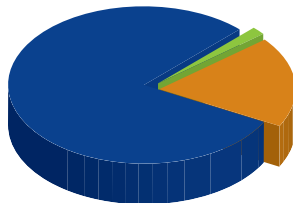
SUMMARY OF REVENUES (in thousands of dollars)	FY 2012-13	FY 2011-12	Yr-to-Yr Chg
Alcoholic Beverage Taxes a/	\$356,551	\$346,252	3.0%
Beer and Wine	169,053	162,198	4.2%
Distilled Spirits	187,498	184,054	1.9%
Cigarette and Tobacco Products Taxes a/	871,533	901,157	-3.3%
Breast Cancer	21,409	22,540	-5.0%
CA Children and Families First b/	480,490	498,497	-3.6%
Cigarette and Tobacco Products Compliance c/	1,696	1,657	2.4%
Cigarette and Tobacco Products Surtax	277,832	283,420	-2.0%
Cigarette Tax	90,106	95,042	-5.2%
Energy Resources Surcharge	71,673	74,163	-3.4%
Environmental Taxes and Fees d/	719,416	661,102	8.8%
California Tire Recycling Management	51,983	48,992	6.1%
Childhood Lead Poisoning Prevention	24,321	20,070	21.2%
Electronic Waste Recovery and Recycle	86,890	110,255	-21.2%
Hazardous Substances Taxes and Fees	72,534	75,045	-3.3%
Integrated Waste Management	40,911	40,790	0.3%
Marine Invasive Species Control	4,526	4,364	3.7%
Occupational Lead Poisoning Prevention	3,207	3,154	1.7%
Oil Spill Prevention and Administration	31,337	28,380	10.4%
State Responsibility Area Fire Prevention e/	75,202		NA
Underground Storage Tank Cleanup	314,880	316,898	-0.6%
Water Rights	13,625	13,153	3.6%
Fuel Taxes and Fees:	5,536,122	5,592,013	-1.0%
Gasoline Tax f/	5,206,304	5,221,980	-0.3%
Jet Fuel Tax	2,643	2,534	4.3%
Motor Vehicle Fees	6,468	4,347	48.8%
Motor Vehicle Fuel Account g/	320,707	363,152	-11.7%
Gas Consumption Surcharge Fund h/	647,505	646,308	0.2%
Insurance Taxes i/	2,063,818	1,988,859	3.8%
Property Taxes	981,681	963,102	1.9%
Local Taxes on State-Assessed Properties j/	965,940	947,000	2.0%
Private Car Tax	7,886	8,041	-1.9%
Timber Yield Tax	7,855	8,061	-2.6%
Retail Sales Tax and Fees a,k/	44,679,961	41,196,804	8.5%
City and County Taxes l/	4,373,939	4,009,624	9.1%
County Transportation Tax	1,458,207	1,329,474	9.7%
Fees m/	12,741	10,560	20.7%
Fiscal Recovery Fund Sales Tax n/	1,443,966	1,345,698	7.3%
Local Revenue Fund 2011 o/	5,516,137	5,247,531	5.1%
Local Revenue Fund State Sales Tax	2,916,188	2,722,030	7.1%
Public Safety Fund Sales Tax	2,916,186	2,721,846	7.1%
Special District Taxes	4,986,206	4,567,694	9.2%
State Taxes f,n,p/	21,056,390	19,242,348	9.4%
State Emergency Telephone Number Account	79,152	83,313	-5.0%
Timber Regulation and Forest Restoration Fund q/	14,637		NA
Total Revenues	\$56,022,049	\$52,453,072	6.8%

For expanded annual data including footnotes, please see [Statistical Table 2](#) at www.boe.ca.gov. (Modified accrual basis of accounting)

FUNDING THE PRESENT AND THE FUTURE

The revenue we generate is crucial to maintaining state and local government programs that benefit our communities today and in the future. In FY 2012-13, we produced \$56 billion in revenue, an *increase* of \$3.6 billion from what was collected in FY 2011-12. For more details on revenue generated by the BOE, please see [Statistical Tables 1-37B](#) on our website, www.boe.ca.gov.

FY 2012-13 TOTAL BOE REVENUES*



	Billions of Dollars in FY 2012-13	Change from FY 2011-12
■ Sales and Use Tax	\$44.7	8.5%
■ Other Taxes and Fees	\$10.4	0.7%
■ Property Taxes	\$1.0	1.9%
Total	\$56.0	6.8%

**Detail may not add up to total due to rounding*

Taxes and Fees Administered by the California State Board of Equalization, FY 2012-13, ([publication 41](#)), accompanies this report and lists revenues and other comparative information in a convenient chart format.

The entire BOE Annual Report including publication 41, plus more than 40 detailed statistical tables are available online at www.boe.ca.gov.

Sales and Use Tax Revenues

Legislation was enacted in 2012 to increase the state sales tax rate to 0.25 percent. California sales and use tax revenue totaled \$44.7 billion in FY 2012-13, an *increase* of 8.5 percent from the \$41.2 billion total in FY 2011-12.

We believe in enforcing a level playing field for businesses throughout the state. Use tax creates fairness between businesses that pay taxes in California and those out-of-state businesses that do not. The BOE continues its outreach efforts to educate the public about use tax on purchases from out of state.

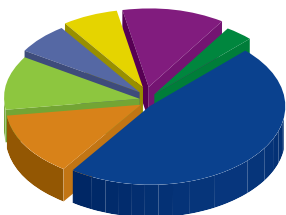
In FY 2012-13, we continued to try to reduce noncompliance with the Agricultural Inspection Stations, U.S. Customs, [Qualified Purchasers Program](#), and [In-State Service Business Program](#), as well as an enhancement to the Collection Program. The cumulative results of these programs generated \$184.8 million in revenue for California.

We also work closely with other state and federal agencies to administer the use tax due on nondealer sales of vehicles, vessels, aircraft, and mobile homes. In FY 2012-13, revenues totaled \$514.8 million, including:

- \$485.9 million collected by the Department of Motor Vehicles ([DMV](#))
- \$25.6 million collected by the BOE
- \$3.3 million collected by the Department of Housing and Community Development ([HCD](#))

As of June 30, 2013, BOE had 928,778 sales and use tax permits representing 1,164,146 business locations that were operating with a valid permit.

FY 2012-13 SALES AND USE TAX REVENUES*



	Billions of Dollars in FY 2012-13	FY 2011-12	Change from FY 2011-12
State General	\$21.1	\$19.2	9.4%
Bradley-Burns	\$5.8	\$5.3	9.2%
Special Districts	\$5.0	\$4.6	9.2%
Local Revenue	\$2.9	\$2.7	7.1%
Local Public Safety	\$2.9	\$2.7	7.1%
Local Revenue Fund 2011	\$5.5	\$5.2	5.1%
Fiscal Recovery	\$1.4	\$1.3	7.3%
Total	\$44.7	\$41.2	8.5%

*Detail may not add up to total due to rounding

Property Tax Revenues

The BOE oversees the assessment practices of the state's 58 county assessors, who are charged with establishing values for approximately 13 million assessments each year. Property taxes raised more than \$49.9 billion for local governments during FY 2012-13, an *increase* of 1.8 percent from the previous year's total of \$49 billion. County-assessed property values *rose* \$188 billion during FY 2012-13 to reach \$4.5 trillion for the 2013-14 tax year.

In 2013, the BOE set the values of state-assessed properties, primarily privately-owned public utilities and railroads, at \$90.8 billion for the 2013-14 roll. This was a \$3.7 billion *increase* from FY 2012-13 values.

General Property Taxes

In FY 2012-13, the BOE reviewed 5.5 million homeowners' exemption claims, saving the state \$1.7 million.

The BOE assesses some public utility and other specified properties. Revenues allocated to California counties produced an estimated \$966 million in local property tax revenues for the state's 58 counties in FY 2012-13.

The BOE develops property tax assessment policies and informational materials to guide county assessors and local assessment appeals boards. In FY 2012-13, we issued 11 Assessment Practices Survey reports of local assessor's offices. We also provided a number of services to the county assessors and the public including issuing 94 letters to the assessors, reviewing 1,140 exemption certificate claims and issuing 680 property tax exemption certificates. Our Legal Entity Ownership Program discovered 1,132 changes in control and ownership, resulting in the reassessment of 3,982 parcels owned by the entities.

County-assessed property values for the 2013-14 roll increased 4.3 percent from the previous year. This follows a 1.4 percent increase for FY 2012-13. This increase in growth is the result of an improving economy, rising home prices, and additional construction. *It is the fastest increase since 2008-09.*

Private Railroad Car Tax

Private railcar owners pay the private railroad car tax on railcars operated in California. For 2013-14, the Board-adopted assessed value for private railroad cars totaled \$754 million. The total assessed value reflects the application of an 80.46 percent assessment ratio as required by the Federal Railroad Revitalization and Regulatory Reform Act. The estimated private railroad car tax revenue for the state's FY 2013-14 General Fund is \$8.4 million.

Timber Yield Tax

Timber owners pay the 2.9 percent timber yield tax based on the immediate harvest value of trees harvested for wood products. Revenues are returned to the counties where the timber was harvested. Calendar year 2012 revenues totaled \$8.2 million.

Timber harvest volume increased from 1.30 billion board feet in 2011 to 1.31 billion board feet in 2012. The total value of the year's harvest decreased to \$267.4 million. The number of registered timber owners decreased from 1,451 active program registrants at the end of June 2012 to 1,433 active program registrants as of June 30, 2013. Thirty timber owners paid approximately 84 percent of the tax collected in 2012.

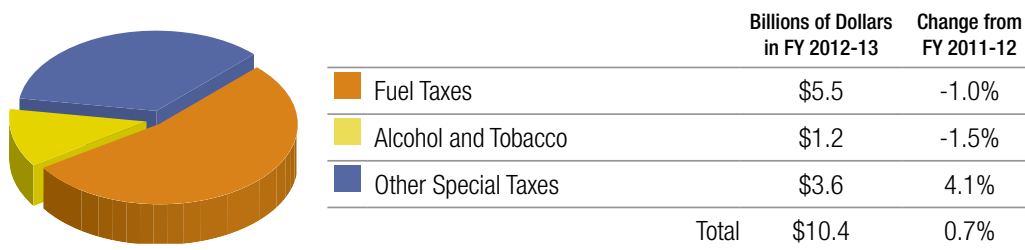
Special Taxes and Fees Revenues

In cooperation with other state agencies, we administer many of the special tax and fee programs. These programs fund efforts to protect our pristine beaches, majestic coastlines, and stately forests. Revenues from the insurance tax, the alcoholic beverage tax, and a portion of the cigarette tax receipts are allocated to the General Fund to support public safety and health and social services programs. Other special taxes and fees fund specific state services from highway construction to recycling programs.

In FY 2012-13, BOE special tax and fee program revenues totaled \$10.4 billion, an increase of 0.7 percent from FY 2011-12. Of the \$10.4 billion total revenue generated through the special tax and fee programs, fuel taxes totaled \$5.5 billion, while alcohol and tobacco taxes totaled approximately \$1.2 billion.

More than 274,062 special tax and fee program returns were filed with the BOE in FY 2012-13.

FY 2012-13 SPECIAL TAXES AND FEES REVENUES*



**Detail may not add up to total due to rounding*

For more detailed information about any of our tax and fee programs, please see *Taxes and Fees Administered by the California State Board of Equalization FY 2012-13*, [publication 41](#). It can be found at www.boe.ca.gov.

SUPPORTING OUR COMMUNITIES

In cooperation with other state agencies, the BOE helps to protect our natural resources, maintain our roads and highways, promote public safety, support social welfare programs, and provide health care services. Together, we are supporting our communities and funding a better quality of life.



Protecting the Environment

Natural resources management programs protect and restore our state's diverse natural resources for current and future generations. These programs include our state parks, impressive coastlines and lakes, spectacular forests, vast fish and wildlife habitats, rich farmlands, and mineral resources.

Programs funding these environmental endeavors include:

• California Tire Fee	\$ 52.0
• Electronic Waste Recycling Fee	\$ 86.9
• Energy Resources Surcharge	\$ 71.7
• Fire Prevention Fee	\$ 75.2
• Hazardous Substances Taxes and Fees	\$ 72.6
• Integrated Waste Management Fee	\$ 40.9
• Lumber Products Assessment Fee	\$ 14.6
• Marine Invasive Species Fee	\$ 4.5
• Oil Spill Prevention and Administration Fee	\$ 31.3
• Timber Yield Tax	\$ 7.9
• Underground Storage Tank Maintenance Fee	\$314.9
• Water Rights Fee	\$ 13.6

Dollar figures expressed in millions unless otherwise stated.



Helping Social Welfare Programs

Social welfare and human services programs provide essential medical and dental services, and provide access to critical care programs promoting health, well-being, and the ability to function in society.

Programs funding these activities include:

- Alcoholic Beverage Tax*
\$ 356.6
- Childhood Lead Poisoning Prevention Fee
\$ 24.3
- Cigarette and Tobacco Products Licensing Program
\$ 1.7
- Cigarette and Tobacco Program
\$781.4
- Insurance Tax*
\$ 2.1 billion
- Natural Gas Surcharge
\$ 647.5
- Occupational Lead Poisoning Prevention Fee
\$ 3.2
- Private Railroad Car Tax*
\$ 7.9

*Funds are distributed to the General Fund and allocated for use by the Governor and Legislature. This is an example of how these funds may be used.



Meeting Transportation Needs

Transportation programs create, maintain, and strengthen our public roads and freeways, airports, seaports, and mass transit systems throughout California.

Programs funding these transit needs include:

- Aircraft Jet Fuel Tax
\$ 2.6
- Diesel Fuel Tax
\$327.2
(includes revenue from the International Fuel Tax Agreement [IFTA] and Interstate User Tax)
- Motor Vehicle Fuel Tax
\$ 5.2 billion



Supporting Public Safety Services

Public safety programs place law enforcement officers on our streets and highways, in our towns and in our cities, prevent crime, and provide emergency services such as 911.

Programs funding these public safety activities include:

- Bradley-Burns Uniform Local Sales and Use Tax
\$ 5.8 billion
- Emergency Telephone Users Surcharge
\$ 79.2

Dollar figures expressed in millions unless otherwise stated.

PROVIDING FOR OUR LOCAL GOVERNMENTS

In 2012-13, the BOE collected and allocated the one percent Bradley-Burns Uniform Local Sales and Use Tax for all California cities and counties. For each sale, 0.25 percent of the local tax collected was allocated to the county where the sale occurred for local transportation projects. The remaining 0.75 percent local tax was allocated to the county or an incorporated city, generally depending on the location of the sales negotiations.

The next page shows a sampling of counties throughout California and the money distributed to them by the BOE.

● Humboldt County Total	\$13,402,335	● Santa Clara County Total	\$274,180,364
City of Eureka	\$6,794,374	City of San Jose	\$117,563,868
● Shasta County Total	\$19,838,036	● Fresno County Total	\$91,399,804
City of Redding	\$15,196,080	City of Fresno	\$53,645,530
● Butte County Total	\$20,495,636	● Kern County Total	\$108,528,613
City of Chico	\$12,785,274	City of Bakersfield	\$51,699,062
● Nevada County Total	\$8,349,908	● Los Angeles County Total	\$1,022,661,344
City of Truckee	\$2,248,287	City of Los Angeles	\$339,192,206
● Placer County Total	\$53,765,463	● San Bernardino County Total	\$223,249,187
City of Roseville	\$31,533,684	City of San Bernardino	\$20,397,228
● Sacramento County Total	\$145,563,842	● Orange County Total	\$418,356,844
City of Sacramento	\$47,235,437	City of Anaheim	\$46,352,031
● Contra Costa County Total	\$105,816,399	● Riverside County Total	\$216,388,091
City of Concord	\$19,267,406	City of Riverside	\$35,928,517
● Alameda County Total	\$191,873,720	● San Diego County Total	\$359,965,188
City of Oakland	\$33,543,807	City of San Diego	\$173,662,567
■ City and County of San Francisco	\$121,829,795		

For more details on your city or county, please see [Statistical Tables 21A-21C](#) on our website.





REACHING OUT TO OUR BUSINESS PARTNERS

We work with businesses to ensure they pay no more and no less than they should.

We emphasize accurate and complete recordkeeping.

We help businesses stay current with the newest information about taxes and fees.

Our goal is to educate businesses so they can thrive and succeed.

We offer a variety of resources and assistance.

In-Person Services

- **Customer Service Center: 1-800-400-7115 or TTY:711**

You can receive customized assistance from our Customer Service Center. Our representatives are available to assist you with general tax assistance from 8:00 a.m. to 5:00 p.m., (Pacific time), except state holidays.

- **Classes, Seminars, and Presentations**

Keeping up with changing tax laws can be challenging for any business. The BOE offers in-person training to help you stay informed.

In FY 2012-13, we offered:

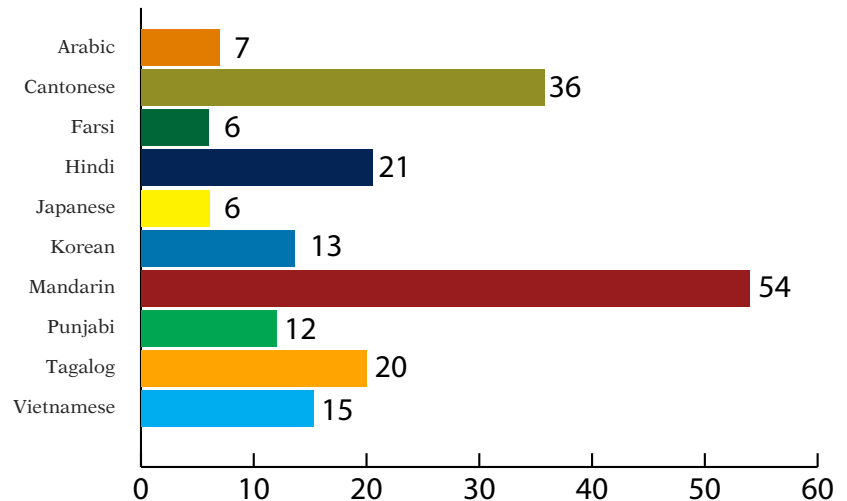
- o 90 [Basic Sales and Use Tax](#) Classes
- o 75 Translated Basic Sales and Use Tax Classes
- o 67 [Tax Return Preparation](#) Classes
- o 6 [Online Filing](#) Classes
- o 25 [Business Seminar](#) Days
- o 6 [Nonprofit and Exempt Organization](#) Seminars
- o 10 Volunteer Income Tax Assistance (VITA) Events
- o 14 [Cigarette and Tobacco Retail Sales](#) Classes

- **Interpreter Services**

The BOE provides interpreter services at our offices and Board hearings when requested. We have 550 interpreters fluent in 42 languages and dialects, and offer interpretation in American Sign Language.

We also have nearly 300 translators fluent in Spanish to help those who need assistance. See the accompanying bar chart for a sampling of translators of other languages available to assist our customers.

Available BOE translators able to assist



In FY 2012-13, the Customer Service Center received approximately 677,440 calls.

Online Services

- **Industry Tax Guides**

We are committed to helping all California businesses and individuals comply with our state's complicated and ever-changing tax laws. As part of that effort, we launched our [Industry Guides Series](#) on our website. These tax guides provide a one-stop-shop for business owners and operators looking for information on key tax issues relevant to their business.

- **Social Media—"Connect with Us"**

The BOE launched a social media package in FY 2012-13 which enhanced our ability to communicate our activities with the public.

- **Popular Online Tutorials**

In FY 2012-13, we added the tutorial, [Underground Storage Tank Permit Verification](#), for owners of underground storage tanks to our website.

- **Webinars and Self-Paced Learning Sessions for Appraisers**

Continued development and implementation of online training for appraisers expanded by implementing the following:

- o **Webinars**—In partnership with the California Assessors' Association (CAA), BOE developed and presented three workshops on open-space properties, assisted the CAA in broadcasting webinars on hotel valuation, golf course valuation, and change in ownership, furthering the BOE's goal of providing mandatory training at a cost savings to the BOE and county assessors' staff.

- o **Self-Paced Learning Sessions**—BOE developed a new type of appraiser training where learning is provided through structured reading and illustrated examples combined with student performed exercises to ensure comprehension of material presented. We posted the [Valuation of Personal Property and Fixtures](#) to the BOE website in FY 2012-13.

- **Centralized Revenue Opportunity System**

The Centralized Revenue Opportunity System (CROS) will update BOE's computer systems, expanding online services to California businesses. It will also improve BOE's internal processes, resulting in more efficient customer service. The new system will help close the tax gap, which BOE anticipates will result in an annual net increase of \$200 million. In FY 2012-13, BOE prepared a comprehensive Request for Proposal to solicit the expertise of a contractor to help build the system. The BOE expects development to begin during the first quarter of 2015.

*Our website
tutorials were
viewed 4,386,434
times in
FY 2012-13.*

- **Feedback Is Important**

We want to know how we can improve your experience. Through responses to our surveys, we can gauge customer satisfaction. We are proud to serve you! In FY 2012-13, the Sales and Use Tax Department received over 9,200 survey responses, in which over 99.3 percent of the respondents were pleased with the overall process and services provided by our staff.

Taxpayers' Rights Advocate Assistance

The Taxpayers' Rights Advocate ([TRA](#)) is committed to resolving taxpayer complaints or problems when normal channels do not work. In FY 2012-13, the TRA helped 972 business owners and individuals resolve their issues. More information can be found in the [Taxpayers' Rights Advocate's Property and Business Taxes Annual Report](#), available on our website.

- **Legal Assistance through the Tax Appeals Assistance Program**

The Tax Appeals Assistance Program ([TAAP](#)), managed by the TRA, makes available free legal assistance from law students to low-income individuals with certain types of income tax and consumer use tax appeals of less than \$20,000. Legal assistance is also available for appeals of Cigarette and Tobacco Licensing Act violations.

In FY 2012-13, TAAP:

- o Informed 872 individuals that they may qualify for the program,
- o Accepted 284 cases into the program, and
- o Resolved 234 cases.



ENCOURAGING VOLUNTARY COMPLIANCE

Statewide Compliance and Outreach Program

As a way to educate the business community at large about their tax responsibilities, we established the Statewide Compliance and Outreach Program, known as **SCOP**. The SCOP representatives conduct door-to-door visits to nonresidential businesses to verify they hold the required state tax and fee permits and licenses and answer any questions the business owner might have. These representatives also contact business owners by phone. SCOP representatives from eight statewide teams visited or contacted 72,679 businesses during FY 2012-13. Of those businesses, 1,121, or approximately 1.5 percent, were found to be operating without a valid seller's permit. In addition, 2,121 sublocations were added to existing permits, which ensures proper tax allocation for local governments. SCOP's contacts also generated 18,411 account record updates, and approximately \$86 million in revenue, an increase of \$8.1 million from the prior fiscal year.



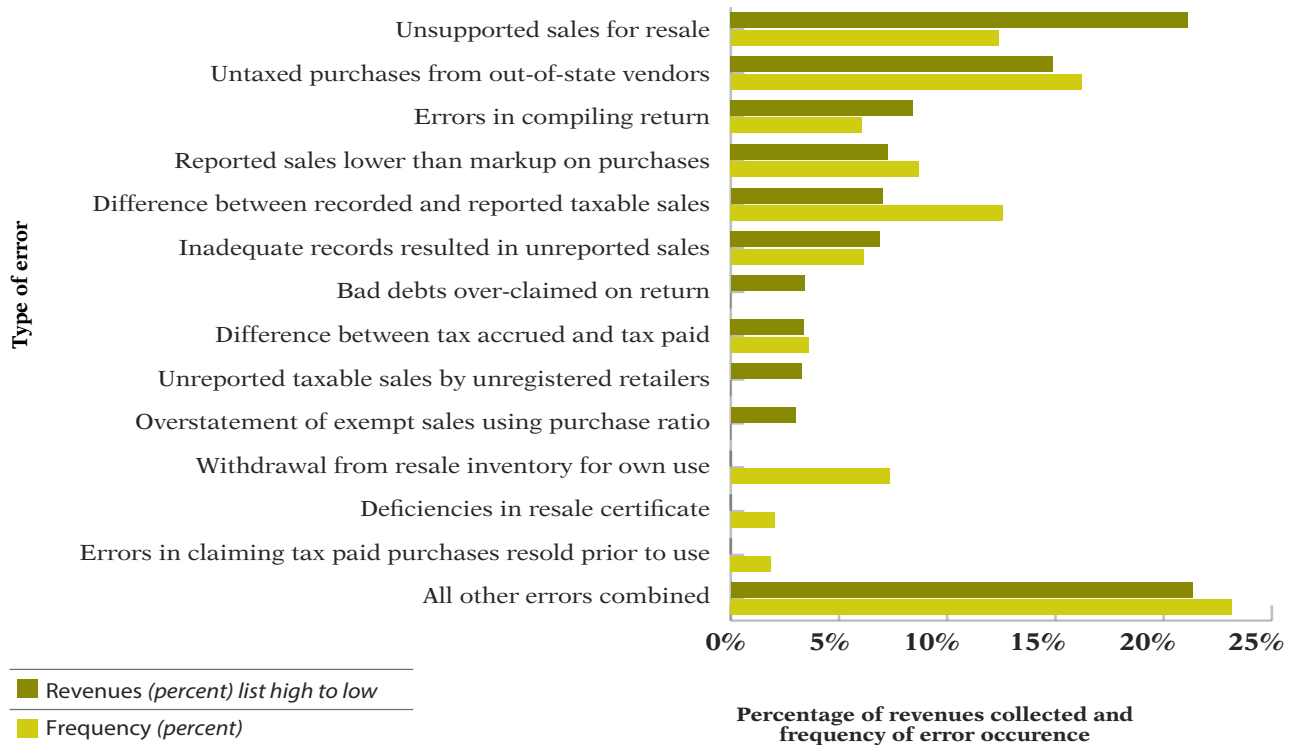
Compliance

Online information and free tax seminars offered by the BOE encourage voluntary compliance and inform business owners about their responsibilities. BOE staff members also assist business owners in interpreting tax laws and regulations and collect outstanding tax amounts. In FY 2012-13, the BOE collected more than \$984 million in delinquent sales and use taxes.

However, there are those who erroneously fail to comply with the state's tax laws in reporting and paying the correct amount of tax due.

To comply with requirements of the Taxpayers' Bill of Rights, the BOE annually identifies the areas of the Sales and Use Tax Law where taxpayer noncompliance is highest and classifies the types of businesses making errors.

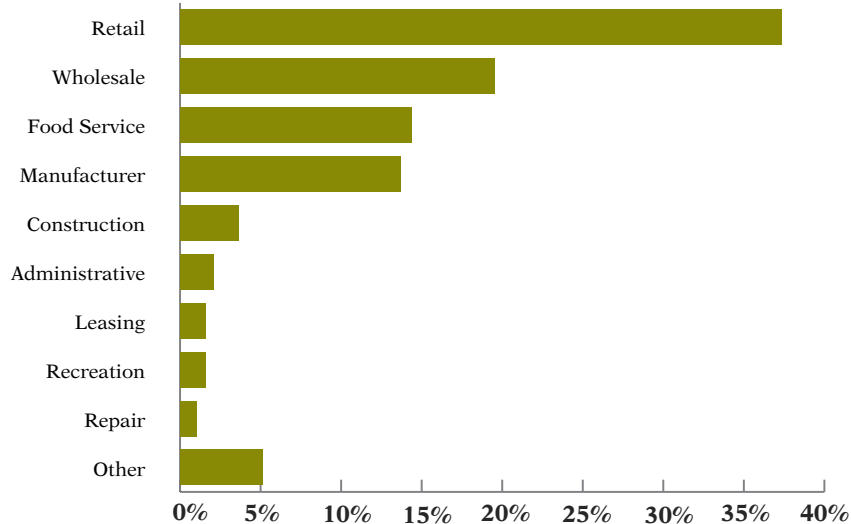
Top Ten Areas of Noncompliance by Revenues Collected and Frequency



The category of *Unsupported sales for resale* was the most costly and the third most frequent category of taxpayer noncompliance, representing one in eight taxpayer errors. This area of noncompliance comprised 21 percent of all net sales and use tax audit deficiencies (less refunds) totaling more than \$111 million in unpaid tax.

Untaxed purchases from out-of-state vendors was the second most costly and the most frequent type of error, representing almost one in six taxpayer errors. This noncompliance category accounted for more than 14 percent of all net sales and use tax audit deficiencies (less refunds), totaling more than \$78 million in unpaid tax.

Noncompliance by NAICS* Industry Class Percentage of Revenues Collected



*NAICS—North American Industry Classification System

*In FY 2012-13, LPOs:
Conducted 10,673
Inspections*

*Issued 293
Civil and Criminal
Citations*

*Executed 313
Seizures of
Contraband
Cigarette and
Tobacco Products.*

The BOE maintains an effective audit program to ensure that businesses accurately report neither more nor less tax than required. The program audits one percent of active accounts each year, concentrating on those considered most likely to be inaccurate in their tax reporting. In FY 2012-13, the sales and use tax audit program disclosed net deficiencies of more than \$528 million. Taxpayers received more than \$155 million in sales and use tax audit refunds.

The BOE protects honest businesses against those that are not compliant with tax laws or engage in tax evasion. BOE investigators with Limited Peace Officer (LPO) status are authorized to inspect, seize illegal product, and issue civil and misdemeanor citations to those in violation of the state's cigarette and tobacco products tax laws. LPOs also make field calls to businesses that continue to operate with revoked seller's permits. Such site visits give business owners a final opportunity to comply voluntarily.

Appeals Process

The BOE plays a significant role as the appellate body for the review of property, business, and income tax determinations. Our Members hear appeals from taxpayers regarding:

- Sales and Use Taxes
- Certain Special Taxes and Fees
- State-Assessed Property Values
- Corporation Tax and Personal Income Taxes
- Timber Tax
- Welfare Exemption Claim Denials

In FY 2012-13, taxpayers filed 44 property tax appeals with the BOE:

- 43 Petitions from State-Assessed Public Utilities
- 1 Private Railroad Car Company

Although a majority of cases are resolved at the department level, the Board Members hear appeals from taxpayers who disagree with decisions regarding how much sales and use tax and special taxes and fees they owe.

In FY 2012-13, taxpayers filed the following appeals with the BOE:

- 1,296 Sales and Use Tax Appeals
- 565 Consumer Use Tax Appeals
- 90,874 Special Tax and Fee Appeals*

In FY 2012-13, the BOE received 981 appeals filed under the Corporation Tax Law and the Personal Income Tax Law. The Board issued 242 decisions, considering 35 of the cases at oral hearings and deciding the remaining appeals based upon a review of the written record. Of the 242 decisions, 21 were petitions for rehearing.

Settlement and Offer in Compromise Programs

The BOE offers a settlement program when appropriate for certain tax and fee disputes. In FY 2012-13, staff settled 372 cases for a total settlement amount of \$77.08 million. This included 356 sales and use tax cases for a settlement amount of \$73.40 million, and 16 special taxes or fees cases for a settlement amount of \$3.68 million.

BOE also provides an “[offer in compromise](#)” program for certain tax and fee final liabilities. In FY 2012-13, the Board approved 216 offers in compromise.

*During FY 2012-13, the BOE received 474 Water Rights appeals and 2 Childhood Lead Poisoning and Prevention Fee appeals. The [State Water Resources Control Board](#) is responsible for decisions related to the Water Rights appeals; the [California Department of Public Health](#) is responsible for decisions related to Childhood Lead Poisoning and Prevention Fee appeals. The [California Department of Forestry and Fire Protection \(CAL FIRE\)](#) is responsible for decisions relating to the Fire Prevention Fee appeals which numbered 90,081 in FY 2012-13. The remaining 317 appeals are related to other special tax and fee programs.



CHANGING LAWS AND REGULATIONS

Regulations

The following list summarizes the Board's adoption, amendment, and repeal of property tax rules, sales and use tax regulations, and special taxes and fees regulations that became effective during FY 2012-13. Please visit www.boe.ca.gov for more information about these rules and regulations.

Property Tax

- Rule [101](#), *Board-Prescribed Exemption Forms*
- Rule [171](#), *Board-Prescribed Report Forms and Property Statements*
- Rule [252](#), *Content of Assessment Roll*
- Rule [263](#), *Roll Corrections*
- Rule [313](#), *Hearing Procedure*
- Rule [321](#), *Burden of Proof*
- Rule [1045](#), *Administration of the Annual Racehorse Tax*

Sales and Use Tax

- Regulation [1618](#), *United States Government Supply Contracts*
- Regulation [1620](#), *Interstate and Foreign Commerce*
- Regulation [1684](#), *Collection of Use Tax by Retailers*
- Regulation [2000](#), *Retailer Reimbursement Retention*

Special Taxes and Fees

- Motor Vehicle Fuel Tax Regulation [1105](#), *Tax-Paid Fuel and Ex-Tax Fuel*
- Motor Vehicle Fuel Tax Regulation [1120](#), *Returned Sales*
- Motor Vehicle Fuel Tax Regulation [1132](#), *Shipments Out of the State*
- Motor Vehicle Fuel Tax Regulation [1161](#), *Tax Paid Twice on Motor Vehicle Fuel*
- Underground Storage Tank Maintenance Fee Regulation [1205](#), *Feepayer; Rebuttable Presumption*
- Underground Storage Tank Maintenance Fee Regulation [1212](#), *Liability for Fee*
- Underground Storage Tank Maintenance Fee Regulation [1271](#), *Records*
- Diesel Fuel Tax Regulation [1435](#), *Tax Paid Twice on Diesel Fuel*
- Diesel Fuel Tax Regulation [1436](#), *Returned Sales*
- Integrated Waste Management Fee Regulation [3301](#), *Records*

The following regulations were repealed in FY 2012-13:

- Alcoholic Beverage Tax Regulation [2558](#), *Distilled Spirits*
- Alcoholic Beverage Tax Regulation [2558.1](#), *Wine*
- Alcoholic Beverage Tax Regulation [2559](#), *Presumption-Distilled Spirits*
- Alcoholic Beverage Tax Regulation [2559.1](#), *Rebuttable Presumption-Distilled Spirits*
- Alcoholic Beverage Tax Regulation [2559.3](#), *Internet List*
- Alcoholic Beverage Tax Regulation [2559.5](#), *Correct Classification*

The Board did not adopt, amend, or repeal any administrative regulations during FY 2012-13.

Legislation

The following list summarizes the legislation that impacts programs administered by the BOE during FY 2012-13:

Property Taxes

- *Possessory Interests in State Parks*
Assembly Bill 1589, Chapter 533, Statutes of 2012, effective January 1, 2013
- *Co-tenancy Change in Ownership Exclusion*
Assembly Bill 1700, Chapter 781, Statutes of 2012, effective September 29, 2012, but operative January 1, 2013

- *Floating Home Marina Change in Ownership Exclusion*
Assembly Bill 2046, Chapter 817, Statutes of 2012, effective September 30, 2012
- *Welfare Exemption—Natural Lands Conservation Management*
Assembly Bill 2207, Chapter 863, Statutes of 2012, effective September 30, 2012

Sales and Use Tax

- *Local Government Finance—“Triple Flip” Clarification*
Assembly Bill 92, Chapter 26, Statutes of 2013, effective June 27, 2013
- *Bulk Sales Threshold—Coins and Bullion*
Assembly Bill 843, Chapter 184, Statutes of 2012, effective January 1, 2013
- *Lumber Products Assessment*
Assembly Bill 1492, Chapter 289, Statutes of 2012, effective September 11, 2012, but operative January 1, 2013
- *Publication of BOE Decisions*
Assembly Bill 2323, Chapter 788, Statutes of 2012, effective January 1, 2013
- *Auto Auction Resales*
Assembly Bill 2618, Chapter 756, Statutes of 2012, effective September 29, 2012
- *Medi-Cal Managed Care Plans*
Senate Bill 78, Chapter 33, Statutes of 2013, effective June 27, 2013, but the imposition of the sales tax is contingent upon specified federal participation and approval.
- *California Alternative Energy and Advanced Transportation Financing Authority Exclusion—Advanced Manufacturing*
Senate Bill 1128, Chapter 677, Statutes of 2012, effective January 1, 2013
- *BOE-sponsored—Offers in Compromise Repeal Date Extension*
Senate Bill 1548, Chapter 285, Statutes of 2012, effective January 1, 2013

Special Taxes and Fees

- *Bunker Fuel Exemption*
Senate Bill 1243, Chapter 293, Statutes of 2012, effective September 11, 2012
- *Cigarette and Tobacco Products Licensing Act—Tobacco Sales to Minors*
Assembly Bill 1301, Chapter 335, Statutes of 2012, effective January 1, 2013
- *Lumber Products Assessment*
Assembly Bill 1492, Chapter 289, Statutes of 2012, effective September 11, 2012, but operative January 1, 2013
- *Publication of BOE Decisions*
Assembly Bill 2323, Chapter 788, Statutes of 2012, effective January 1, 2013
- *Insurance Tax—Medi-Cal Managed Care Plans*
Senate Bill 78, Chapter 33, Statutes of 2013, effective June 27, 2013
- *BOE-sponsored—Offers in Compromise Repeal Date Extension*
Senate Bill 1548, Chapter 285, Statutes of 2012, effective January 1, 2013

Court Decisions

The following list summarizes the court decisions impacting the BOE during FY 2012-13

California Court of Appeal Decisions

- *California State Teachers' Retirement System v. County of Los Angeles (2013)* 216 Cal.App.4th 41
Government Code section 7510, subdivision (b)(1) is facially unconstitutional because it violates the constitutional prohibition on assessing property taxes on publicly-owned real property and on assessing property in excess of its fair market value.
- *Sky River LLC v. County of Kern (2013)* 214 Cal.App.4th 720
The tax assessor converted taxpayer's discount rate from an after-tax rate to a before-tax rate incorrectly by using an estimated average income tax rate that included income taxes paid to other states rather than the typical potential purchaser's expected combined California and federal marginal income tax rate.
- *NetJets Aviation, Inc. v. Guillory (2012)* 207 Cal.App.4th 26
Property tax assessment imposed on managers of fractionally-owned aircraft is constitutional and lawful, but may not be applied retroactively.

HISTORY OF THE BOARD OF EQUALIZATION

Created in 1879 by a constitutional amendment, the BOE was initially responsible for ensuring that county property tax assessment practices were equal and uniform throughout California.

The BOE began to levy four new taxes, including insurance and corporate franchise taxes in 1911, to produce revenue for services throughout our state.

The BOE assumed the responsibility for administering the new sales tax in 1933, created as a result of the tremendous drop in property tax revenues caused by the Great Depression, and began collecting the new use tax in 1935.

Currently, the BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs in addition to property taxes and fees.

STATISTICAL TABLES INDEX

The entire BOE Annual Report including [publication 41](#), plus more than 40 detailed [statistical tables](#) are available online at www.boe.ca.gov.

Table 1	Summary of Expenditures of the State Board of Equalization
Table 2	Summary of Revenues from Taxes Administered by the State Board of Equalization, by Fiscal Year
Table 3A	Summary of Total Costs of Performing State Board of Equalization Functions
Table 3B	Revenues and Ratios of State Board of Equalization Expenditures and Total Costs to Revenues from Assessments Made by the BOE
Table 4	Summary of Assessed Values of Property Subject to Local General Property Taxes, and Average Tax Rates
Table 5	Assessed Value of State- and County-Assessed Property Subject to General Property Taxes, Inclusive of the Homeowners' Exemption, by Class of Property and by County
Table 6	Assessed Value of State-Assessed Property Subject to General Property Taxes, by Class of Property and by County
Table 7	Assessed Value of County-Assessed Property Subject to General Property Taxes, Inclusive of the Homeowners' Exemption, by Class of Property and by County
Table 8	Number of Veterans' Exemptions and Exempt Value of Veterans', College, Church, Religious, and Welfare Exemptions
Table 9	Gross Assessed Value of State- and County-Assessed Property, Number of Homeowners' Exemptions, Exempt Value by Type of Exemption, and Net Assessed Value Subject to General Property Taxes
Table 10	Net State- and County-Assessed Value of Property Subject to General Property Taxes on the Secured and Unsecured Rolls, by County
Table 11	Assessed Value of County-Assessed Property Subject to General Property Taxes, Inclusive of the Homeowners' Exemption, by Incorporated Cities
Table 12	Assessed Value of Property Assessed by the State Board of Equalization, by Type of Company
Table 13	Assessed Value of Property Assessed by the State Board of Equalization and Subject to Local Taxation, by Company
Table 14	General Property Tax Levies as Compiled for Computation of the Average Tax Rate
Table 15	General Property Tax Dollar, by County

Table 16A	Timber Yield Tax and Timber Reserve Fund Tax Statistics	
Table 16B	Timber Production Statistics, by County	
Table 17A	Assessed Value of Private Railroad Cars Assessed by the State Board of Equalization and Subject to Exclusive State Taxation, by Company	
Table 17B	Private Railroad Car Tax Assessments, Tax Rates, and Tax Levies	
Table 18	State Sales and Use Tax Collections and Number of Permits	
Table 21A	Revenues Distributed to Cities and Counties from Local Sales and Use Taxes	
Table 21B	Revenues Distributed to Counties from County Transportation Tax	
Table 21C	Revenues Distributed to Special Districts from Transactions and Use Tax	
Table 22A	Local Sales Tax Distributions and Administrative Charges to Cities and Counties	
Table 22B	Special District Tax Distributions and Administrative Charges	
Table 23	Local Sales and Use Tax Rates Imposed by California Cities	
Table 24	Gasoline and Jet Fuel Tax Statistics	
Table 25A	Taxable Distributions of Diesel Fuel and Alternative Fuels	
Table 25B	Diesel Fuel and Alternative Fuels Tax Statistics	
Table 26	Underground Storage Tank Maintenance Fee, Childhood Lead Poisoning Prevention Fee, and Oil Spill Response, Prevention, and Administration Fees Revenue	
Table 27	Beer, Wine, and Distilled Spirits Excise Tax Collections	
Table 28	Apparent Consumption of Beer, Wines, and Distilled Spirits, by Fiscal Year	
Table 29	Per Capita Consumption of Beer, Wines, and Distilled Spirits, by Fiscal Year	
Table 30A	Cigarette Taxes and Other Tobacco Products Surtax Revenue	
Table 30B	Cigarette Distributions and Per Capita Consumption	
Table 31	Taxable Insurance Premiums and Total Taxes Assessed by Company	
Table 32	Summary of Insurance Taxes Assessed Against Companies Authorized to Do Business in California, by Type of Insurer	
Table 33	Insurance Tax Assessments Against Licensed Insurers, Tax Rate, Taxes on Premiums, Local Property Tax Credits Allowed, Taxes on Ocean Marine Business, and Total Taxes Assessed	
Table 34	Gas Consumption Surcharge Revenue	
Table 35	Emergency Telephone Users (911) Surcharge and (Moore) Universal Telephone Service Tax Revenue	
Table 36A	Hazardous Substances Tax, Integrated Waste Management Fee, California Tire Fee, Occupational Lead Poisoning Prevention Fee, and Marine Invasive Species Fee Revenue	
Table 36B	Water Rights Fee, Electronic Waste Recycling Fee, State Responsibility Area Fire Prevention, and Timber Regulation and Forest Restoration Revenue	
Table 37A	eWaste Fee Collections	Available March 2014
Table 37B	Reported Consumption of Covered Electronic Devices	Available March 2014



California State Board of Equalization

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